

**SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY**

**CADILLAC, MICHIGAN**

**JUNE 30, 2008**

***Baird, Cotter and Bishop, P.C.***

**CERTIFIED PUBLIC ACCOUNTANTS**

134 WEST HARRIS STREET CADILLAC, MICHIGAN 49601

PHONE: 231-775-9789 FAX: 231-775-9749

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SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY  
CADILLAC, MICHIGAN

JUNE 30, 2008

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# *Baird, Cotter and Bishop, P.C.*

## **CERTIFIED PUBLIC ACCOUNTANTS**

134 WEST HARRIS STREET CADILLAC, MICHIGAN 49601  
PHONE: 231-775-9789 FAX: 231-775-9749  
www.bcbcpa.com

September 30, 2008

### INDEPENDENT AUDITORS' REPORT

To the Township Board  
South Branch Township  
Wexford County  
Cadillac, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of South Branch Township, Wexford County, Cadillac, Michigan, as of and for the year ended June 30, 2008, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Township's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of South Branch Township, Wexford County, Cadillac, Michigan, as of June 30, 2008, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages iii through ix and budgetary comparison information on pages 19-20 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise South Branch Township, Wexford County, Cadillac, Michigan's basic financial statements. The individual fund financial statements and other supplementary information are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

BAIRD, COTTER AND BISHOP, P.C.

*Baird, Cotter & Bishop, P.C.*

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY  
CADILLAC, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2008

South Branch Township, a general law township located in Wexford County has implemented the provisions of Governmental Accounting Standards Board Statement 34 (GASB 34). The Management's Discussion and Analysis, a requirement of GASB 34, is intended to be the South Branch Township board's discussion and analysis of the financial results for the fiscal year ended June 30, 2008, along with specific comparative information as required.

**Financial Highlights**

- ◆ The assets of the Township exceeded its liabilities at the close of the fiscal year by \$374,561. Of this amount, \$41,566 may be used to meet the Township's ongoing obligations to citizens and creditors.
- ◆ As of the close of the current fiscal year, the Township's governmental funds reported combined ending fund balances of \$92,815 an increase of \$12,378 in comparison with the prior year. About \$26,387 is available for spending at the Township's discretion.
- ◆ The Township's total debt decreased by \$4,468 during the fiscal year.

**Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the Township's basic financial statements. The Township's basic financial statements are comprised of three components. 1) government-wide financial statements, 2) fund financial statements and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-Wide Financial Statements** This report includes government-wide statements as required by GASB Statement Number 34. The *government-wide financial statements* are designed to provide readers with a broad overview of the Township's finances, in a manner similar to a private-sector business. These statements are calculated using full accrual accounting and more closely represent those presented by business and industry. The Township's entire assets and liabilities, both short and long-term, are reported. As such, these statements include capital assets, net of related depreciation.

The *Statement of Net Assets* presents information on all of the Township's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Township is improving or deteriorating.

The *Statement of Activities* presents information showing how the Township's net assets changed during the fiscal year. All changes in net assets are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Both of the government-wide financial statements distinguish functions of the Township's that are principally supported by taxes and intergovernmental revenues (governmental activities) from functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities).

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY  
CADILLAC, MICHIGAN

MANAGEMENT’S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2008

**Fund Financial Statements**

The fund level statements are reported on a modified accrual basis in that only those assets that are “measurable” and “currently available” are reported. Liabilities are recognized to the extent they are normally expected to be paid with current financial resources.

***Governmental Funds*** – Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, the governmental fund financial statements focus on current sources and uses of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government’s near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statement, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government’s near-term financing decisions. Both the governmental funds balance sheet and the governmental fund statements of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

***Proprietary Funds*** – Proprietary funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Township does not maintain any proprietary funds.

**Notes to the Financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

**Other Information**

In addition to the basic financial statements, this report further presents Required Supplementary Information (RSI) that explains and supports the information presented in the financial statements.

**Government-Wide Financial Analysis**

The Statement of Net Assets is the first statement in the Government-Wide Financial Statements section of this document. This statement is useful for providing an indicator of the Township’s financial position over time. The Net Assets of the Township were \$374,561 at June 30, 2008, meaning the Township’s assets were greater than its liabilities by this amount. As noted earlier, net assets may serve over time as a useful indicator of a government’s financial position. A comparison with the previous fiscal year is presented in order to show the change in Net Assets over the previous fiscal year.

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY  
CADILLAC, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2008

**South Branch Township**  
**Net Assets as of June 30,**

	<b>2008</b>	<b>2007</b>
<b>Assets</b>		
Current Assets	\$ 96,202	\$ 82,977
Non Current Assets		
Capital Assets	448,301	429,278
Less: Accumulated Depreciation	(161,722)	(122,874)
Total Non Current Assets	286,579	306,404
<b>Total Assets</b>	<b>\$ 382,781</b>	<b>\$ 389,381</b>
<b>Liabilities</b>		
Current Liabilities	\$ 8,220	\$ 7,339
Long-Term Liabilities	0	4,663
<b>Total Liabilities</b>	<b>8,220</b>	<b>12,002</b>
<b>Net Assets</b>		
Invested in Capital Assets, Net of Related Debt	281,916	297,273
Restricted for Specific Purposes	51,079	41,193
Unrestricted	41,566	38,913
<b>Total Net Assets</b>	<b>374,561</b>	<b>377,379</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 382,781</b>	<b>\$ 389,381</b>

The most significant portions of the Township's Net Assets are cash and investment in capital assets (e.g. land, buildings, equipment, and others) less any related debt that is outstanding that the Township used to acquire the asset. The Township has \$41,566 in unrestricted Net Assets. These assets represent resources that are available for appropriation, but are limited by Township policies regarding their use.

At the end of the current fiscal year, the Township is able to report positive balances in all categories of net assets, both for the government as a whole, as well as for its separate governmental activities.

The total net assets of the Township decreased by \$2,818 in this fiscal year, which is an indicator that the Township experienced negative financial growth during the year.

The following table illustrates and summarizes the results of the changes in the net assets for the Township. The condensed information was derived from the government-wide Statement of Activities.

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY  
CADILLAC, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2008

**South Branch Township**  
**Change in Net Assets**  
**for the Fiscal Year Ended June 30,**

	<u>2008</u>	<u>2007</u>
<b><u>Revenues</u></b>		
<b>Program Revenues</b>		
Charges for Services	\$ 2,316	\$ 2,344
Operating Grants and Contributions	3,466	3,509
Capital Grants and Contributions	17,602	2,500
<b>General Revenues</b>		
Property Taxes	79,570	74,397
State Grants	22,928	22,192
Interest Earnings	2,660	3,589
Gain on Sale of Capital Assets	0	1,620
Other	<u>1,404</u>	<u>14</u>
<b>Total Revenues</b>	<u>129,946</u>	<u>110,165</u>
<b><u>Expenses</u></b>		
Legislative	5,311	6,998
General Government	41,998	41,043
Public Safety	80,158	66,773
Public Works	108	0
Other Functions	4,953	5,963
Interest on Long-Term Debt	<u>236</u>	<u>840</u>
<b>Total Expenses</b>	<u>132,764</u>	<u>121,617</u>
Change in Net Assets	(2,818)	(11,452)
<b><u>NET ASSETS</u></b> - Beginning of Year	<u>377,379</u>	<u>388,831</u>
<b><u>NET ASSETS</u></b> - End of Year	<u><u>\$ 374,561</u></u>	<u><u>\$ 377,379</u></u>

**Governmental Activities**

During the fiscal year ended June 30, 2008, the Township's net assets decreased by \$2,818 in the governmental funds. The majority of this decrease represents the degree to which increases in ongoing revenues have not outstripped similar increases in ongoing expenses. GASB 34 now requires the Township to maintain a record of annual depreciation expense and the accumulation of depreciation expense over time. The net increase in accumulated depreciation expense is a reduction in net assets.



SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY  
CADILLAC, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2008

A significant part of the revenue for all governmental activities of South Branch Township comes from property taxes. The Township levied a millage for fire protection in addition to the operating millages this fiscal year. The Township levied 0.8344 mills for operating purposes, 1.8816 mills for fire protection, and 0.9438 mills for fire equipment.

State shared revenue is collected by the State of Michigan and distributed to local governments by formula allocation.

The Township's governmental activities expenses are dominated by public safety expenses. The Township spent \$80,158 in the fiscal year 2008 on public safety expenses. General government represented the next largest expense at \$41,998 followed by legislative at \$5,311.

**Business-Type Activities**

The Township does not maintain any Business-Type Activities.

**Financial Analysis of the Government's Funds**

***Governmental Activities*** The focus of South Branch Township's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Township's financing requirement. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of the current fiscal year, South Branch Township's governmental funds reported combined ending fund balances of \$92,815. Approximately \$28,387 of this total amount constitutes unreserved, undesignated fund balance. The remainder of the fund balance is reserved or designated for specific purposes and is therefore not available for new appropriation. For example, the fund balance that is reserved for fire protection must be used for expenditures that relate to fire protection.

**General Fund** – The General Fund increased its fund balance by \$4,421 which brings the fund balance to \$52,094. Of the General Fund's fund balance, \$26,387 is unreserved while \$2,000 is reserved for prepaid expenditures and \$10,358 is reserved for right-of-way maintenance, and \$13,349 is designated for the community building. Property tax revenues increased by \$1,751.

**Fire Fund** – The Fire Fund increased its fund balance by \$7,957 which brings the fund balance to \$40,721. This balance is reserved and must be used for fire protection and fire equipment.

The Township levied a fire millage on the 2007 tax roll. This resulted in \$55,204 in tax related revenues during the current fiscal year.

**Liquor Law Enforcement Fund** – The Liquor Law Enforcement Fund's fund balance remained the same at zero. The Liquor license fees received from the State do not cover the entire expenditures from the Wexford County Sheriff's Department, therefore, only the expenditures paid for by the revenue of this fund are recorded here. The balance is recorded in the General Fund.

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY  
CADILLAC, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2008

**Proprietary Fund** The Township does not maintain any proprietary funds.

**General Fund Budgetary Highlights**

The Uniform Budget Act of the State of Michigan requires that the local Township Board approve the original budget for the upcoming fiscal year prior to its starting on July 1. Any amendments made to the operating budget must be approved by the Board prior to the close of the fiscal year on June 30.

**Revenues, Change from Original to Final Budget:**

	<u>General Fund</u>
Revenues	
Total Revenues Original Budget	\$ 47,901
Total Revenues Final Budget	<u>47,901</u>
Increase (Decrease) in Budgeted Revenues	<u><u>\$ 0</u></u>

**Expenditures, Change from Original to Final Budget:**

	<u>General Fund</u>
Expenditures	
Total Expenditures Original Budget	\$ 51,954
Total Expenditures Final Budget	<u>55,701</u>
Increase (Decrease) in Budgeted Expenditures	<u><u>\$ 3,747</u></u>

**Capital Assets and Debt Administration**

**Capital Assets** The Township's investment in capital assets for governmental activities as of June 30, 2008, amounted to \$286,579 net of accumulated depreciation. The total decrease in the Township's investment in capital assets net of accumulated depreciation for the current fiscal year was \$19,825.

Capital assets summarized below include any items purchased with a cost greater than \$300 individually (for purchases after June 30, 2003) and that have a useful life greater than one year. A summary of capital asset categories is illustrated below:

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY  
CADILLAC, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2008

**South Branch Township**  
**Capital Assets as of June 30,**

	<u>2008</u>	<u>2007</u>
Land	\$ 200	\$ 200
Buildings and Improvements	30,626	30,626
Equipment and Vehicles	417,475	398,452
	<u>448,301</u>	<u>429,278</u>
Less: Accumulated Depreciation	(161,722)	(122,874)
<b>Net Capital Assets</b>	<u><u>\$ 286,579</u></u>	<u><u>\$ 306,404</u></u>

Major capital asset events during the current fiscal year included the following:

- ◆ Purchased turnout gear and other fire equipment.

**Long-Term Debt** At the end of the current fiscal year, the Township had total installment debt outstanding of \$4,663. The entire balance of this debt is backed by the full faith and credit of the government. The lender also has a security interest in the tanker purchased with the note proceeds. Additional information on the Township's long-term debt can be found in the notes to the financial statements.

**Economic Condition and Outlook**

The unemployment rate is still high in the State of Michigan and the State's shortfall in the budget means potential reductions in state-shared revenues.

These factors were considered in preparing the Township's budgets for the 2008-09 fiscal year.

**Request for Information**

The financial report is designed to provide our citizens, customers, investors and creditors with a general overview of the Township's finances and to demonstrate the Township's accountability for the money it receives. If you have any questions about this report or need any additional information, contact South Branch Township at 10510 W. M-55, Cadillac, Michigan 49601.

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY  
CADILLAC, MICHIGAN

STATEMENT OF NET ASSETS  
JUNE 30, 2008

	<u>GOVERNMENTAL ACTIVITIES</u>
<u>ASSETS</u>	
Cash	\$ 82,902
Receivables	
Due from Other Governments	10,352
External Parties (Fiduciary Funds)	948
Prepaid Expenditures	<u>2,000</u>
Total Current Assets	<u>96,202</u>
<u>CAPITAL ASSETS</u>	
Land	200
Buildings and Improvements	30,626
Equipment and Vehicles	<u>417,475</u>
	448,301
Less Accumulated Depreciation	<u>161,722</u>
Net Capital Assets	<u>286,579</u>
TOTAL ASSETS	<u>382,781</u>
<u>LIABILITIES</u>	
<u>CURRENT LIABILITIES</u>	
Accounts Payable	3,387
Accrued Interest Payable	170
Current Portion of Long-Term Debt	<u>4,663</u>
Total Current Liabilities	<u>8,220</u>
<u>LONG-TERM LIABILITIES</u>	
Notes Payable	4,663
Less: Current Portion	<u>(4,663)</u>
Total Long-Term Liabilities	<u>0</u>
TOTAL LIABILITIES	<u>8,220</u>
<u>NET ASSETS</u>	
Invested in Capital Assets, Net of Related Debt	281,916
Restricted for Right-of-Way Maintenance	10,358
Restricted for Fire Protection	40,721
Unrestricted	<u>41,566</u>
TOTAL NET ASSETS	<u>\$ 374,561</u>

The accompanying notes are an integral part of the financial statements.

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY  
CADILLAC, MICHIGAN

STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2008

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES			NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	TOTAL
					GOVERNMENTAL ACTIVITIES
<u>PRIMARY GOVERNMENT GOVERNMENTAL ACTIVITIES</u>					
Legislative	\$ 5,311	\$ 0	\$ 0	\$ 0	\$ (5,311)
General Government	41,998	2,316	0	0	(39,682)
Public Safety	80,158	0	1,429	17,602	(61,127)
Public Works	108	0	2,037	0	1,929
Other Functions	4,953	0	0	0	(4,953)
Interest on Long-Term Debt	236	0	0	0	(236)
Total	<u>\$ 132,764</u>	<u>\$ 2,316</u>	<u>\$ 3,466</u>	<u>\$ 17,602</u>	<u>(109,380)</u>
<u>GENERAL REVENUES</u>					
	Taxes				79,570
	State Grants				22,928
	Interest Earnings				2,660
	Other				1,404
	Total General Revenues				<u>106,562</u>
	Change in Net Assets				(2,818)
	<u>NET ASSETS</u> - Beginning of Year				<u>377,379</u>
	<u>NET ASSETS</u> - End of Year				<u>\$ 374,561</u>

The accompanying notes are an integral part of the financial statements.

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY  
CADILLAC, MICHIGAN

GOVERNMENTAL FUNDS

BALANCE SHEET  
JUNE 30, 2008

	GENERAL FUND	FIRE FUND	LIQUOR LAW ENFORCEMENT FUND	TOTALS
<u>ASSETS</u>				
Cash	\$ 38,121	\$ 44,781	\$ 0	\$ 82,902
Due from Other Funds	2,454	0	0	2,454
Due from Other Governments	10,352	0	0	10,352
Prepaid Expenditures	2,000	0	0	2,000
TOTAL ASSETS	<u>\$ 52,927</u>	<u>\$ 44,781</u>	<u>\$ 0</u>	<u>\$ 97,708</u>
 <u>LIABILITIES AND FUND BALANCE</u>				
<u>LIABILITIES</u>				
Accounts Payable	\$ 833	\$ 2,554	\$ 0	\$ 3,387
Due to Other Funds	0	1,506	0	1,506
Total Liabilities	<u>833</u>	<u>4,060</u>	<u>0</u>	<u>4,893</u>
 <u>FUND BALANCE</u>				
Reserved for:				
Prepaid Expenditures	2,000	0	0	2,000
Right-of-Way Maintenance	10,358	0	0	10,358
Fire Protection	0	40,721	0	40,721
Unreserved				
Designated for				
Community Building	13,349	0	0	13,349
Undesignated	26,387	0	0	26,387
Total Fund Balance	<u>52,094</u>	<u>40,721</u>	<u>0</u>	<u>92,815</u>
 TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 52,927</u>	<u>\$ 44,781</u>	<u>\$ 0</u>	<u>\$ 97,708</u>

The accompanying notes are an integral part of the financial statements.

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY  
CADILLAC, MICHIGAN

GOVERNMENTAL FUNDS

RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET ASSETS  
JUNE 30, 2008

Total Fund Balance for Governmental Funds	\$	92,815
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Amounts Reported for Governmental Activities in the  
Statement of Net Assets are Different Because:

Capital assets used in governmental activities are not  
financial resources and therefore are not reported in the funds.

Land	\$	200	
Buildings		30,626	
Equipment		417,475	
Accumulated Depreciation		<u>(161,722)</u>	286,579

Long-term liabilities are not due and payable in the current period  
and therefore are not reported in the funds.

Notes Payable		(4,663)	
Accrued Interest Payable		<u>(170)</u>	(4,833)

NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$	<u><u>374,561</u></u>
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The accompanying notes are an integral part of the financial statements.

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY  
CADILLAC, MICHIGAN

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE

YEAR ENDED JUNE 30, 2008

	GENERAL FUND	FIRE FUND	LIQUOR LAW ENFORCEMENT FUND	TOTALS
<u>REVENUES</u>				
Taxes	\$ 24,366	\$ 55,204	\$ 0	\$ 79,570
Federal Grants	0	17,602	0	17,602
State Grants	24,965	0	1,429	26,394
Charges for Services	2,291	0	0	2,291
Interest and Rents	2,548	137	0	2,685
Other Revenues	1,404	0	0	1,404
Total Revenues	55,574	72,943	1,429	129,946
<u>EXPENDITURES</u>				
Legislative	5,311	0	0	5,311
General Government	39,965	0	0	39,965
Public Safety	816	60,121	1,429	62,366
Public Works	108	0	0	108
Other Functions	4,953	0	0	4,953
Debt Service	0	4,865	0	4,865
Total Expenditures	51,153	64,986	1,429	117,568
Net Change in Fund Balance	4,421	7,957	0	12,378
<u>FUND BALANCE - Beginning of Year</u>	47,673	32,764	0	80,437
<u>FUND BALANCE - End of Year</u>	\$ 52,094	\$ 40,721	\$ 0	\$ 92,815

The accompanying notes are an integral part of the financial statements.



SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY  
CADILLAC, MICHIGAN

GOVERNMENTAL FUNDS

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES  
JUNE 30, 2008

Net Change in Fund Balance - Total Governmental Funds	\$ 12,378
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Amounts reported for governmental activities are different because:

Governmental funds report capital outlays as expenditures in the statement of activities. These costs are allocated over their estimated useful lives as depreciation.

Depreciation Expense	(38,848)
Capital Outlay	19,023

Accrued interest on notes payable is recorded in the statement of activities when incurred; it is not recorded in governmental funds until it is paid.

Accrued Interest Payable - Beginning of Year	331
Accrued Interest Payable - End of Year	(170)

Repayments of principal on long-term debt is an expenditure in the governmental fund, but not in the statement of activities (where it is a reduction of liabilities).

Note Payable	<u>4,468</u>
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CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u><u>\$ (2,818)</u></u>
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The accompanying notes are an integral part of the financial statements.

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY  
CADILLAC, MICHIGAN

STATEMENT OF FIDUCIARY NET ASSETS  
JUNE 30, 2008

	<u>AGENCY FUNDS</u>
<u>ASSETS</u>	
Cash	\$ 948
	<u><u>          </u></u>
<u>LIABILITIES</u>	
Due to Other Funds	\$ 948
	<u><u>          </u></u>

The accompanying notes are an integral part of the financial statements.

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY  
CADILLAC, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Reporting Entity**

South Branch Township is a general law township located in Wexford County which operates under the direction of an elected township board. Under the criteria established by accounting principles generally accepted in the United States of America, the Township has determined that there are no component units which should be included in its reporting entity.

**B. Government-wide and Fund Financial Statements**

GASB Statement No. 34 establishes standards for external financial reporting for state and local governments and requires that resources be classified for accounting and reporting purposes into the following three net asset categories.

*Invested in Capital assets, net of related debt* consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

*Restricted net assets* result when constraints placed on net asset use are either externally imposed by creditors, grantors, and contributors, or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net assets* consist of net assets which do not meet the definition of the two preceding categories.

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the government. For the most part, the effect of interfund activity has been removed from these statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

The government-wide focus is more on the sustainability of the Township as an entity and the change in aggregate financial position resulting from the activities of the fiscal period.

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY  
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NOTES TO FINANCIAL STATEMENTS  
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**C. Measurement Focus, Basis of Accounting and Basis of Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Sales taxes collected and held by the state at year end on behalf of the government are also recognized as revenue. All other revenue items are considered to be measurable and available only when cash is received by the government.

Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

The accounts of the Township are organized on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds are maintained consistent with legal and managerial requirements.

South Branch Township reports the following major governmental funds:

The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *Fire Fund* accounts for revenue sources that are legally restricted to expenditures for fire protection.

The *Liquor Law Enforcement Fund* accounts for revenue sources that are legally restricted to expenditures for liquor law enforcement.

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY  
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NOTES TO FINANCIAL STATEMENTS  
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Additionally South Branch Township reports the following fund types:

*Agency funds* are custodial in nature and do not present results of operations or have a measurement focus. Agency funds are accounted for using the accrual basis of accounting. These funds are used to account for assets that the Township holds for others in an agency capacity.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions involved. Amounts reported as program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

When both restricted and unrestricted resources are available for use, it is the Township's policy to use the restricted resources first, then unrestricted resources as they are needed.

**D. Assets, Liabilities and Equity**

***1. Deposits and Investments***

The Township's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposits, and short-term investments with original maturities of three months or less from date of acquisition.

(I) The Township Board has authorized the Township Treasurer to invest in the following:

- (a) Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
- (b) Certificates of deposit, savings accounts, deposit accounts, or depository of a financial institution with a location within the State of Michigan.
- (c) Commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and that matures not more than 270 days after the date of purchase.
- (d) Repurchase agreements consisting of instruments listed in subdivision (a).
- (e) Bankers' acceptances of United States banks.
- (f) Obligations of this state or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than 1 standard rating service.

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY  
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NOTES TO FINANCIAL STATEMENTS  
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- (g) Mutual funds registered under the Investment Company Act of 1940, Title I of chapter 686, 54 Stat. 789, 15 U.S.C. 80a-1 to 80a-3 and 80a-4 to 80a-64, with authority to purchase only investment vehicles that are legal for direct investment by the Township Treasurer. This authorization is limited to securities whose intention is to maintain a net asset value of \$1.00 per share. (Recommendation--the above limitation is recommended, however, the Treasurer may also include mutual funds whose net asset value may fluctuate on a periodic basis by so stating in this area).
- (h) Investment pools organized under the Local Government Pool Act, 1985 PA 121, MCL 129.141 to 129.150.
- (i) Investment pools organized under the Surplus Funds Investment Pool Act, 1982 PA 367, MCL 129.111 to 129.118.

## **2 *Receivables and Payables***

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

All trade and property tax receivables are shown net of an allowance for uncollectibles. Property taxes attach as an enforceable lien on the property as of the date they are levied. State education taxes, county taxes, and 50% of Cadillac Area Public School's taxes are levied and due July 1, and become delinquent after September 14. The remaining millages are levied and due December 1, and become delinquent after February 15. Collections of taxes and remittances of them are accounted for in the Current Tax Collection Fund. Township property tax revenues are recognized when they become both measurable and available for use to finance Township operations. Amounts which are not expected to be collected within sixty days are treated as deferred revenues.

The 2007 taxable valuation of South Branch Township totaled \$19,525,829, on which ad valorem taxes levied consisted of 0.8344 mills for South Branch Township operating purposes, 0.9438 mills for fire equipment, and 1.8816 mills for South Branch Township fire protection. These levies raised approximately \$16,300 for operating purposes, \$18,440 for fire equipment, and \$36,764 for fire protection.

## **3. *Inventories and Prepaid Items***

Inventories are not significant and are expensed as acquired.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY  
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NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008

**4. Capital Assets**

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$300 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment of the government are depreciated using the straight line method over the following estimated useful lives:

<u>ASSETS</u>	<u>YEARS</u>
Buildings	50
Building Improvements	20
Public Domain Infrastructure	20
Vehicles	10
Equipment	5-10

**5. Long-term Obligations**

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond premiums and discounts, as well as issuance costs, are amortized over the life of the bonds using the effective interest method. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**6. Fund Equity**

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY  
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NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008

**7. Use of Estimates**

The presentation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**A. Budgetary Information**

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. A public hearing is held to obtain taxpayer comments. Appropriations lapse at year end. Budgeted amounts presented are as originally adopted on June 20, 2007, or as amended by the Township Board from time to time throughout the year.

The appropriated budget is prepared by fund and activity. The Township Board exercises budgetary control over expenditures.

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by the Township because it is not, at present, considered necessary to assure effective budgetary control or to facilitate effective cash planning and control.

**B. Funds with Expenditures in Excess of Appropriations were as follows:**

	<u>APPROPRIATIONS</u>	<u>EXPENDITURES</u>
General Fund		
Clerk	\$ 4,890	\$ 5,177
Treasurer	9,734	10,658
Street Lighting	0	108

These overages were funded by greater than anticipated revenues and available fund balance.

**III. DETAILED NOTES ON ALL FUNDS**

**A. Deposits and Investments**

The Township's deposits are all on deposit with Lake Osceola State Bank in Baldwin, Michigan.

*Investment rate risk.* The Township will minimize Interest Rate Risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby



SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY  
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NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008

avoiding the need to sell securities in the open market; and investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investing pools and limiting the average maturity in accordance with the Township's cash requirement.

*Foreign currency risk.* The Township is not authorized to invest in investments, which have this type of risk.

*Credit risk.* The Township will minimize Custodial Credit Risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities listed in the Township's investment policy; and pre-qualifying the financial institutions, brokers/dealer, intermediaries and advisors with which the Township will do business in accordance with the Township's investment policy.

*Concentration of credit risk.* The Township will minimize Concentration of Credit Risk, which is the risk of loss attributed to the magnitude of the Township's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

*Custodial credit risk – deposits.* In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. As of June 30, 2008, none of the government's bank balance of \$84,820 was exposed to custodial credit risk because none of it was uninsured and uncollateralized.

*Custodial credit risk – investments.* For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Township's investments are categorized to give an indication of the level of risk assumed by the Township at year end. Category 1 includes investments that are insured or registered, or securities held by the Township or the Township's agent in the Township's name. Category 2 includes investments that are uninsured and unregistered with securities held by the counterparty's trust department or its agent in the Township's name. Category 3 includes investments that are uninsured and unregistered, with the securities held by the counterparty, or by its trust department or its agent but not in the Township's name. At year end, the Township held no investments.

**B. Receivables**

Receivables as of year end for the government's individual major funds are as follows:

	General	Fire	Liquor Law Enforcement	Total
Receivables				
Due from Other Governments	\$ 10,352	\$ 0	\$ 0	\$ 10,352

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY  
CADILLAC, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
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The allowance for doubtful accounts is not considered to be material for disclosure. As a result, its uncollectible accounts are virtually nil.

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned.

No deferred revenue was recorded in any of the funds at the end of the current fiscal year.

**C. Capital Assets**

Primary Government

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Governmental activities</u>				
Capital Assets, Not Being Depreciated				
Land	\$ 200	\$ 0	\$ 0	\$ 200
Capital Assets, Being Depreciated				
Buildings and Improvements	30,626	0	0	30,626
Equipment and Vehicles	398,452	19,023	0	417,475
Total Capital Assets, Being Depreciated	429,078	19,023	0	448,101
Less Accumulated Depreciation For:				
Buildings and Improvements	21,884	481	0	22,365
Equipment and Vehicles	100,990	38,367	0	139,357
Total Accumulated Depreciation	122,874	38,848	0	161,722
Total Capital Assets, Being Depreciated, Net	306,204	(19,825)	0	286,379
Governmental Activities Capital Assets, Net	\$ 306,404	\$ (19,825)	\$ 0	\$ 286,579

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:

General Government	\$ 2,033
Public Safety	36,815
	<u>\$ 38,848</u>

Construction Commitments:

The government has no outstanding construction commitments as of June 30, 2008.

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY  
CADILLAC, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008

**D. Interfund Receivables, Payables and Transfers**

Individual fund interfund receivable and payable balances at June 30, 2008, were:

<u>Fund</u>	<u>INTERFUND RECEIVABLES</u>	<u>INTERFUND PAYABLES</u>
General Fund	\$ 2,454	\$ 0
Special Revenue Funds		
Fire Fund	0	1,506
Fiduciary Funds		
Current Tax Collection Fund	0	948
	<u>\$ 2,454</u>	<u>\$ 2,454</u>

All remaining balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. All are expected to be resolved within one year.

As of June 30, 2008, there were no Interfund Transfers.

Transfers are used (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

**E. Long-Term Debt**

The following is a summary of the long-term debt transactions of the Township of South Branch for the year ended June 30, 2008:

	<u>NOTES PAYABLE</u>
Long-Term Debt Payable At July 1, 2007	\$ 9,131
New Debt Incurred	0
Payments on Debt	<u>(4,468)</u>
 LONG-TERM DEBT PAYABLE AT JUNE 30, 2008	 <u>\$ 4,663</u>
 DUE WITHIN ONE YEAR	 <u>\$ 4,663</u>

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY  
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NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008

Debt payable at June 30, 2008, consisted of the following:

Notes Payable

\$33,827 note payable, Due in Annual Installments of \$4,866 through August 31, 2008, interest at 4.35%	<u>\$ 4,663</u>
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The annual requirements to amortize debt outstanding as of June 30, 2008 are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Amounts Payable</u>
2009	<u>\$ 4,663</u>	<u>\$ 203</u>	<u>\$ 4,866</u>

**F. Fund Balance Reserves and Designations**

In order to comply with generally accepted accounting principles and meet certain legal requirements, the Township has reserved fund balances in various funds. In addition, certain portions of unreserved fund balances have been designated for intended future uses. These reserves and designations are detailed in the following schedule:

FUND BALANCE/NET ASSETS

Reserved

General Fund

Prepaid Expenditures	\$ 2,000
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Right-of-Way Maintenance	10,358
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Special Revenue Fund

Fire Fund

Fire Protection	40,721
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Designated

General Fund

Community Building	<u>13,349</u>
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TOTAL FUND BALANCE RESERVES AND DESIGNATIONS	<u>\$ 66,428</u>
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**IV. OTHER INFORMATION**

**A. Risk Management**

The Township is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The Township participates in a pool of municipalities within the State of Michigan for self-insuring property and casualty, crime, general liability, errors and omissions insurance and workers' compensation. The Township pays annual premiums to the pool for

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY  
CADILLAC, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008

the respective insurance coverage. In the event the pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessments to make up the deficiency. The Township has not been informed of any special assessments being required for the current year or the three prior years.

The Township continues to carry insurance for other risks of loss, including fidelity bonds.

**B. Jointly Governed Organization**

The Township is a member of the Henderson and South Branch Township Joint Cemetery Association. Henderson Township maintains the records for the cemetery. The cemetery association is a joint venture supported by Henderson and South Branch Township. The following information was taken from Henderson Township's March 31, 2008, audited financial statements for the Joint Cemetery Association Fund.

Total Assets	\$ 2,695
Total Liabilities	0
Fund Balance	2,695
Total Revenues and Transfers	4,216
Total Expenditures	1,521
Net Increase (Decrease) in Fund Balance	2,695

A copy of these audited financial statements may be obtained upon request from Henderson Township.

**C. Sale of Future Revenues**

For several years, the Township has sold its rights to delinquent real property tax revenues and related late payment penalties to the Wexford County treasurer. For the 2007 tax roll the Township received a lump sum payment of \$1,160 for general operating tax revenues and \$3,929 for fire operating and equipment tax revenues. In exchange for these payments, the county is allowed to keep the delinquent taxes collected plus the late payment penalties charged. If the county is ultimately unable to collect any of these delinquent taxes, the Township will have to repay the county.

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY  
CADILLAC, MICHIGAN  
REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON SCHEDULE  
MAJOR GOVERNMENTAL FUNDS

YEAR ENDED JUNE 30, 2008

	GENERAL FUND			FIRE FUND			LIQUOR LAW ENFORCEMENT FUND		
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL
<u>REVENUES</u>									
Taxes	\$ 22,598	\$ 22,598	\$ 24,366	\$ 55,107	\$ 55,107	\$ 55,204	\$ 0	\$ 0	\$ 0
Federal Grants	0	0	0	0	30,139	17,602	0	0	0
State Grants	20,635	20,635	24,965	0	0	0	1,500	1,500	1,429
Charges for Services	2,295	2,295	2,291	0	0	0	0	0	0
Interest and Rents	2,359	2,359	2,548	106	106	137	0	0	0
Other Revenues	14	14	1,404	1,500	1,500	0	0	0	0
Total Revenues	47,901	47,901	55,574	56,713	86,852	72,943	1,500	1,500	1,429
<u>EXPENDITURES</u>									
Legislative									
Township Board	6,469	5,769	5,311	0	0	0	0	0	0
General Government									
Supervisor	4,077	4,877	4,653	0	0	0	0	0	0
Election	1,000	2,120	1,626	0	0	0	0	0	0
Assessor	9,436	9,436	9,051	0	0	0	0	0	0
Clerk	4,227	4,890	5,177	0	0	0	0	0	0
Board of Review	755	755	502	0	0	0	0	0	0
Treasurer	9,734	9,734	10,658	0	0	0	0	0	0
Building and Grounds	5,100	6,120	5,735	0	0	0	0	0	0
Cemetery	3,251	3,251	2,563	0	0	0	0	0	0

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY  
CADILLAC, MICHIGAN  
REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON SCHEDULE  
MAJOR GOVERNMENTAL FUNDS

YEAR ENDED JUNE 30, 2008

	<u>GENERAL FUND</u>			<u>FIRE FUND</u>			<u>LIQUOR LAW ENFORCEMENT FUND</u>		
	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>
Public Safety									
Fire Department	0	0	0	38,655	73,425	60,121	0	0	0
Police and Liquor Law Enforcement	2,905	2,905	816	0	0	0	1,500	1,500	1,429
Public Works									
Street Lighting	0	0	108	0	0	0	0	0	0
Other Functions									
Insurance	3,000	3,840	3,043	0	0	0	0	0	0
Employee Benefits	2,000	2,004	1,910	0	0	0	0	0	0
Debt Service	0	0	0	0	5,040	4,865	0	0	0
Total Expenditures	51,954	55,701	51,153	38,655	78,465	64,986	1,500	1,500	1,429
Excess (Deficiency) of Revenues									
Over Expenditures	(4,053)	(7,800)	4,421	18,058	8,387	7,957	0	0	0
OTHER FINANCING SOURCES (USES)									
Transfer In	3,854	3,854	0	0	0	0	0	0	0
Net Change in Fund Balance	(199)	(3,946)	4,421	18,058	8,387	7,957	0	0	0
<u>FUND BALANCE</u> - Beginning of Year	47,673	47,673	47,673	35,530	35,530	32,764	0	0	0
<u>FUND BALANCE</u> - End of Year	\$ 47,474	\$ 43,727	\$ 52,094	\$ 53,588	\$ 43,917	\$ 40,721	\$ 0	\$ 0	\$ 0

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY  
CADILLAC, MICHIGAN

CURRENT TAX COLLECTION FUND

STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
YEAR ENDED JUNE 30, 2008

	BALANCE			BALANCE	
	7/1/2007	ADDITIONS	DEDUCTIONS	6/30/2008	
<u>ASSETS</u>					
Cash	\$ 954	\$ 751,747	\$ 751,753	\$ 948	
<u>LIABILITIES</u>					
Due to Other Funds	\$ 954	\$ 81,193	\$ 81,199	\$ 948	
Due to Other Organizations and Individuals	0	1,212	1,212	0	
Due to Other Governments	0	669,342	669,342	0	
Total Liabilities	\$ 954	\$ 751,747	\$ 751,753	\$ 948	



# *Baird, Cotter and Bishop, P.C.*

## **CERTIFIED PUBLIC ACCOUNTANTS**

134 WEST HARRIS STREET CADILLAC, MICHIGAN 49601  
PHONE: 231-775-9789 FAX: 231-775-9749  
www.bcbcpa.com

September 30, 2008

To the Township Board  
South Branch Township  
Wexford County  
Cadillac, Michigan

In planning and performing our audit of the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of South Branch Township, Wexford County, Cadillac, Michigan as of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered South Branch Township's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the governmental unit's internal control. Accordingly we do not express an opinion on the effectiveness of the governmental unit's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies and other deficiencies that we consider to be material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiencies to be significant deficiencies in internal control:

## 1) Lack of Segregation of Duties

The relatively small number of people involved in the accounting functions of the Township and the design of the accounting system as developed by the state make it difficult to adequately segregate duties. Segregation of accounting duties is a fundamental method of strengthening internal control. However, in deciding what internal control procedures should be implemented, the Board must consider the costs of implementing them and weigh those costs against the benefits to be derived from their implementation.

## 2) Lack of Adequate Controls to Produce Full Disclosure GAAP Basis Financial Statements.

All Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principals (GAAP). This is a responsibility of the government's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting).

As is the case with many smaller and medium-sized entities, the government has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process. Accordingly, the government's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its *external* auditors, who cannot by definition be considered a part of the government's *internal* controls.

This condition was caused by the government's decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the government to perform this task internally. As a result of this condition, the government lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.

The government has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the government to outsource this task to its external auditors, and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe that the deficiency described in (1) above (Lack of Segregation of Duties) constitutes a material weakness.

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BAIRD, COTTER AND BISHOP, P.C.

*Baird, Cotter & Bishop, P.C.*

# *Baird, Cotter and Bishop, P.C.*

## **CERTIFIED PUBLIC ACCOUNTANTS**

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September 30, 2008

To the Township Board  
South Branch Township  
Wexford County  
Cadillac, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of South Branch Township for the year ended June 30, 2008, and have issued our report thereon dated September 30, 2008. Professional standards require that we provide you with the following information related to our audit.

### **Our Responsibility under U.S. Generally Accepted Auditing Standards**

As stated in our engagement letter dated September 30, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. As part of our audit, we considered the internal control of South Branch Township. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control. We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

### **Significant Audit Findings**

#### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by South Branch Township are described in Note I to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2007-08. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

### *Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

### *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. No material misstatements were noted. We did propose several adjusting journal entries that were accepted and recorded by management.

### *Disagreements with Management*

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated September 30, 2008.

### *Other Audit Findings or Issues*

During the course of our audit of the basic financial statements of South Branch Township for the year ended June 30, 2008, we noted the following list of items which we feel deserve comment:

#### Budgeting

Expenditures in three activities of the General Fund exceeded appropriations. The Township Board is also responsible for amending the budget during the year to allow for expenditures in excess of original appropriations, or to reduce appropriations, if it appears the actual expenditures will be much less than originally appropriated.

The amendments to the budget throughout the year should be clearly noted in the board minutes. Additionally, the actual results from the prior year and an estimate of the current year results should be included in the budget document.

This comment is a repeated comment from the previous year.

#### Untimely Deposit and Disbursement of Property Tax Collections

During the course of our audit we noticed that property tax collections were not being deposited and disbursed in accordance with state law. Per the Uniform Accounting Procedures Manual distribution of tax collections must occur within 10 business days after the 1<sup>st</sup> and 15<sup>th</sup> of each month. We noted two instances where tax collections were not distributed within this time frame.

### Telecommunications Right-of-Way (Metro Act)

Currently the Township receives funds from the State of Michigan related to the Metro Act. Provisions of this Act require the Township to expend these funds on specific expenditures related to road right-of-ways. As of June 30, 2008, the Township had \$10,358 reserved for these types of expenditures. A list of allowable expenditures is available at the State of Michigan.

### Condition of Accounting Records

Since the last audit we have noticed improvement in the condition of the accounting records. Room for improvement still exists but we commend the Township on the improvements made since your last audit, and are looking forward to continued progress.

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BAIRD, COTTER AND BISHOP, P.C.

*Baird, Cotter & Bishop, P.C.*